

## Impact of Banning Export of Agri Commodities on the International Market

India, one of the biggest producers of wheat and wheat flour, prohibited wheat exports last year due to a rapid and unexpected decline in output caused by a sharp increase in temperatures during the Rabi season. This move occurred despite a surge in export demand for Indian wheat, driven by already tight global supplies resulting from the Russia-Ukraine conflict.

This was not the isolated incidence of India imposing export restrictions as an effort to tame galloping domestic prices. In the middle of May last year, India imposed a ban on wheat exports. Subsequently, in July, restrictions on wheat flour exports were introduced, mandating traders to obtain permission before shipping wheat flour.

### Spoilsport El Niño

As of July this year, in the wake of rising food prices, high inflation and fear of rice shortage due to El Niño disruptions as the country heads into a festive season Indian government decided to ban the export of non-basmati white rice too in order to ensure adequate domestic availability at reasonable prices. Also, Indian parboiled rice exports were levied with a 20 per cent tariff, and the minimum export price (MEP) for Basmati rice was mandated at \$1,200 per tonne, aimed at preventing non-basmati rice from being exported under the classification of basmati rice. This action was in addition to the ban imposed on the export of broken rice, declared in September last year, which remains effective even to date.

Nevertheless, in response to the protest expressed by the exporter's lobby, pointing out that over 50 per cent of basmati rice is exported for less than \$1,000 per tonne, basmati rice exports may get a deep dent, the government has provided substantial relief by assuring to recommend a lower minimum export price (MEP) of \$850 per metric tonne.

One of the main reasons for this action was the expectation of below normal monsoon rains this year. Any shortfall in production due to lesser than normal monsoon rains raises



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inflationary fears on one end and reduces farmer incomes, due to lower yields and crop damages, on the other. As rural incomes suffer due to the uneven monsoon, it impacts rural demand and, in turn, the total demand of the country.

### Global Impact

Owing to the preempted ill effects of the monsoon India, the world's largest rice exporter, limited rice shipments, imposed a high minimum export price (MEP) on Basmati rice, imposed a 40 per cent duty on onion exports, permitted duty-free imports of pulses, and may potentially ban sugar exports going forward. The government might continue with ongoing curbs on exports of rice varieties and wheat for a prolonged period.

Although India's decision to ban rice exports was based purely on domestic fundamentals, not surprisingly it had a detrimental impact on countries heavily reliant on imports.

Prima facie, there seems to be no problem with this approach as every country has its domestic compulsion to ensure supply for its own fellow country persons at an affordable price to contain the food inflation first.

In 2022, India, the largest rice exporter globally, held a substantial share, nearly 40 per cent, in the global rice trade followed by Thailand (13 per cent share) and Vietnam (9 per cent share). The country exported 22 million

tonnes of rice to 140 nations. This comprised 4.5 million tonnes of basmati rice, 8 million tonnes of parboiled rice, 6 million tonnes of non-basmati white rice, and 3.5 million tonnes of broken rice.

More than 100,000 tonne of non-basmati rice was imported from India in 2022 by 15 countries, including nine in sub-Saharan Africa (Madagascar, Benin, Angola, Kenya, Côte d'Ivoire, Cameroon, Mozambique, Togo, and Guinea). Many of these countries are net rice importing countries and are dependent on India for the supplies of their important staple. An Indian ban would mean potential food security risks for millions of people in Africa, or otherwise, they have to look for alternative suppliers from other supplier countries at a higher price.

The brunt of India's export ban on rice was so much that at the WTO, the US asked India to lift its export ban on non-basmati rice with immediate effect. India however argued that the newly imposed regulation was crucial for the food security of 1.4 billion of its people. India also ensured that it granted exemptions from the export ban to those in need upon their governments' request and was committed to ensuring food security of needy countries.

### Making the best of a bad situation

Another major consequential disturbance was the domino effect of similar actions taken by other rice-exporting countries, which were forced to curb exports to safeguard local consumers.

The lesson that one has learned from the past is that when a few key rice-exporting countries enforced bans, others tended to follow suit. Following the food price spikes of 2007/08 Vietnam initiated restrictions in June 2007, followed by India in October 2007, and by May 2008, Pakistan and Thailand had also implemented similar measures. The collective market share of these four nations exceeded 70 per cent. During the period from October 2007 to April 2008, the benchmark Thai Rice price nearly tripled. The global rice prices reached a record high above \$1,000 per tonne in 2008 after India, Vietnam, Bangladesh, Egypt, Brazil, and other small producers restricted exports.

Fearing that Thailand, Vietnam, and Pakistan, which together account for 30 per cent of global rice sales – may also take decisions revolving around bans forced by El Niño, which has

returned after seven years, can further amplify the worsening price situation across the globe.

While many face the heat of the ban, other exporting nations can potentially gain from this ban at the expense of India. When India restricted exports, the other top exporters namely Thailand, Vietnam, and Pakistan, were keen to reap the benefits of huge rice demand due to India's action but were also cautious that their domestic consumers are not hurt by rising exports.

Thailand, the second-largest global rice exporter, witnessed a notable uptick in domestic milled prices, rising by nearly 20 per cent following India's export ban. Concurrently, rice exports surged by 11.9 per cent compared to the previous year, totaling 5.29 million tonnes from January to August. Despite potential production challenges due to drought conditions caused by El Niño in the upcoming year, Thailand is targeting to export 8 million tonnes of rice this year. Similarly, Vietnam's rice exports in the January–September period are estimated to have risen by about 23 per cent from a year earlier to 6.6 million metric tonnes. Revenue from rice exports in the period is up by 40 per cent compared to the previous year.

The ban caused panic buying of rice in Canada and U.S. grocery stores. At the end of August, Myanmar, the world's fifth-largest rice exporter, announced that it too would ban rice exports for 45 days. Myanmar imports a substantial portion of its requirement, and India accounts for a relatively large share of its rice imports.

On September 1, the Philippines put price ceilings in place to cap retail rice prices. Almost 90 per cent of the Philippines' rice imports come from Vietnam, where rice export prices have increased 36 per cent since January 1. Singapore is anticipated to face an impact as well, given that the report indicates India accounts for approximately 30 per cent of the rice imports for the city-state.

The forthcoming couple of months will give a clearer picture of the rice market both domestic and global, as the impact of El Niño on rice yields becomes evident. Export restrictions, price controls, and other forms of government intervention in markets across the globe may worsen shortages, potentially resulting in increased price volatility and spikes. 🌾